

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT OF)
U.S. 60 WATER DISTRICT OF SHELBY) CASE NO. 8044-1
AND FRANKLIN COUNTIES)

O R D E R

On May 15, 1984, the U.S. 60 Water District of Shelby and Franklin counties ("U.S. 60") filed an application with the Commission for approval to increase the rates charged to its customers in accordance with the provisions of its purchased water adjustment clause on file with the Commission. Effective August 1, 1984, U.S. 60's supplier, the City of Frankfort, Franklin County, Kentucky, ("City") increased its wholesale price of water by \$.39 per thousand gallons. The increase in water cost for water purchased by U.S. 60 directly from the City is \$22,001 on an annual basis.

COMMENTARY

Prior to approving increased rates resulting from purchased water cost increases pursuant to 807 KAR 5:067, the Commission must examine an applicant's financial condition to determine whether it can absorb any of the increased cost. If there is potential for absorption, the Commisison may adjust rates to offset only that portion of the increased water cost which cannot be absorbed.

TEST PERIOD

In order to determine the reasonableness of the proposed purchased water adjustment and the increase in rates, the Commission has adopted the 12-month period ended June 30, 1984, as the test period in this matter. Adjustments deemed proper and reasonable have been included to more accurately reflect current operating conditions.

REVENUES AND EXPENSES

The rates proposed by U.S. 60 will increase revenues by \$19,564 to offset the increased cost of purchased water. No other adjustments were proposed. The Commission has made the following adjustments to expenses, in conformance with its rate-making policy, to more fairly represent the actual operating expenses of U.S. 60:

Depreciation Expense

U.S. 60's test period depreciation expense was \$12,510. This reflects depreciation on total plant using a composite rate of approximately 2.7 percent.¹ The Commission's policy is to compute depreciation expense for rate-making purposes on the basis of original cost of the plant in service less contributions in aid of construction. The balance sheet filed by U.S. 60 shows contributions in aid of construction at the end of the test period to be \$94,937. This amount is approximately 20.6 percent of the total cost of the utility plant in service. In determining the pro forma depreciation expense the Commission has utilized the

¹ $\$12,510 \div \$460,872 = 2.7$ percent.

depreciation rate applied by U.S. 60 and has excluded depreciation associated with contributed property. The adjusted depreciation expense for rate-making purposes is \$9,880.²

The Commission has further adjusted operating expenses to reflect the increase in purchased water cost of \$22,001 from U.S. 60's supplier. Therefore, the Commission finds that U.S. 60's adjusted test period operations are as follows:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$126,496	\$	\$126,496
Operating Expenses	<u>93,209</u>	<u>19,371</u> ³	<u>112,580</u>
Operating Income	<u>\$ 33,287</u>	<u>\$ (19,371)</u>	<u>\$ 13,916</u>

REVENUE REQUIREMENTS

U.S. 60's annual debt service based on outstanding debt at the end of the test period is \$22,508.⁴ U.S. 60's adjusted net operating income of \$13,916 plus interest income from water operations of \$3,257 provides a debt service coverage ("DSC") of approximately .76X. The Commission is of the opinion that this coverage is unfair, unjust and unreasonable. Furthermore, the

²	Total Plant	\$460,872
	Less: Contributions in Aid	94,937
	Non-contributed Plant	<u>\$365,935</u>
	Composite Rate	X 2.7%
	Depreciation Allowed for Rate-making	<u>\$ 9,880</u>
³	Depreciation adjustment	\$ <2,630>
	Purchased Water Adjustment	22,001
	Total Net Adjustment	<u>\$ 19,371</u>
⁴	Bonds (5-year average principal 1984-88)	\$ 8,600
	Interest (5-year average 1984-1988)	13,908
	Debt Service	<u>\$ 22,508</u>

Commission is of the opinion that a DSC of 1.2X is the fair, just and reasonable coverage necessary for U.S. 60 to pay its operating expenses and to meet the requirements of its lenders. Accordingly, the Commission had determined that additional revenue of \$9,837⁵ is necessary to provide the 1.2X DSC which will ensure the financial stability of U.S. 60.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. U.S. 60 has the potential to absorb a portion of the increase in purchased water cost.

2. The rates proposed by U.S. 60 will produce revenues in excess of those found to be fair, just and reasonable herein and should be denied upon application of KRS 278.030.

3. The rates and charges in Appendix A are the fair, just and reasonable rates to be charged by U.S. 60 in that they should produce the revenue required by U.S. 60.

IT IS THEREFORE ORDERED that the rates requested by U.S. 60 be and they hereby are denied.

IT IS FURTHER ORDERED that the rates and charges in Appendix A are the fair, just and reasonable rates and charges to be charged by U.S. 60 for water service rendered on and after the date of this Order.

5	Adjusted Operating Expenses	\$112,580
	1.2 X Debt Service (\$22,508)	27,010
	Revenue Requirement	<u>\$139,590</u>
	Less: Adjusted Operating Revenue and Other Income	129,753
	Increase Allowed	<u>\$ 9,837</u>

Done at Frankfort, Kentucky, this 7th day of September, 1984.

PUBLIC SERVICE COMMISSION

Richard D. Hemmick
Chairman

Robert L. Spill
Vice Chairman

Sam Shree
Commissioner

ATTEST:

Acting Secretary _____

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8044-1 DATED 9/7/84

The following rates are prescribed for customers of U.S. 60 Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

GALLONAGE BLOCKS

First 1,000 gallons
Next 2,000 gallons
Next 2,000 gallons
Over 5,000 gallons

MONTHLY RATES

\$6.97 Minimum Bill
3.27 per 1,000 gallons
2.52 per 1,000 gallons
2.17 per 1,000 gallons